

Message Text

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44

ACTION EUR-12

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC IMMEDIATE 8358

LIMITED OFFICIAL USE SECTION 01 OF 02 LONDON 19430

PASS TREASURY, FRB, NSC

E.O. 11652: N/A

TAGS: EFIN, UK

SUBJECT: REUSS ON STERLING BALANCES

REF: LONDON 19405

1. AN IMPORTANT PHRASE WAS OMITTED FROM PARAGRAPH 14 (C) OF REFTEL. THE FOLLOWING IS WHAT CONGRESSMAN REUSS SAID IN LONDON ON NOVEMBER 29 ON THE SUBJECT OF STERLING BALANCES:

SOMETHING SHOULD BE DONE ABOUT THE STERLING BALANCES. THE SCHEME THAT APPEALED MOST TO HIM IS TO HAVE THE WEALTHY COUNTRIES - THE US, WEST GERMANY AND JAPAN - BACKUP AN IMF OFFER TO TAKE OVER SUCH PART OF THE OFFICIALLY HELD STERLING BALANCES AS THEIR HOLDERS WISH TO TURN IN FOR A LONG TERM - 10, 15, OR 20 YEAR - FIXED INTEREST RATE SECURITY DENOMINATED IN SDRS, OR A BASKET OF CURRENCIES' OR DOLLARS, OR WHATEVER PEOPLE MIGHT WANT, WITH THE BRITISH, WHO HAVE NORTH SEA OIL TO LOOK FORWARD TO IN A FEW YEARS, TAKING THE RISK OF A POUND DEVALUATION WHEN THE OBLIGATION COMES DUE. SOMETHING LIKE THIS SHOULD BE DONE TO GET THIS PROBLEM OUT OF THE WAY AS AN ELEMENT OF THE PICTURE.

2. WE HAVE NOW LISTENED TO A TAPE OF THE INTERVIEW OF
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CONGRESSMAN REUSS THAT RAN ON THE BBC PROGRAM "FINANCIAL

WORLD TONIGHT" ON NOVEMBER 29. THE INTERVIEW WAS RECORDED THAT AFTERNOON. THE INTERVIEWER STRESSED IN HIS INTRODUCTION CONGRESSMAN REUSS' KEY CONGRESSIONAL ROLE AND ALSO THAT, AS A DEMOCRAT, HE WAS CLOSE TO CARTER. ALMOST HALF OF THE INTERVIEW WAS DEVOTED TO CONGRESSMAN REUSS' VIEW OF THE "VEXED QUESTION OF STERLING BALANCES.

3. CONGRESSMAN REUSS THOUGHT TOO MUCH HAD BEEN MADE OF THE STERLING BALANCES. OCCASIONALLY ONE HEARD THE SUGGESTION THAT THE US AND SOME OF THE STRONG DEMOCRACIES OUGHT TO CHIP IN AND SOMEHOW TAKE OVER THAT \$10 BILLION OBLIGATION. SO FAR AS HE WAS CONCERNED THIS WAS NONSENSE. HE DIDN'T THINK THE US WAS IN ANY POSITION TO DO THAT. WE HAD OUR OWN OBLIGATIONS, TO SAVE OUR CITIES, DO SOMETHING ABOUT YOUTH UNEMPLOYMENT, HELP OUT THE POOREST OF THE POOR ON THE WORLD SCENE. CERTAINLY WE WERE NOT GOING TO BE ABLE TO DO THAT IF WE WERE TO SPEND HUGE SUMS ON A BRITISH STERLING BAILOUT. ON THE OTHER HAND HE THOUGHT IT MIGHT MAKE A GOOD DEAL OF SENSE IF THE IMF, SAY, WERE TO OFFER TO THE OFFICIAL HOLDERS OF STERLING BALANCES, LARGELY THE OPEC COUNTRIES, 30 OR 60 DAYS IN WHICH THEY COULD, IF THEY WANTED, GET RID OF THEIR STERLING BALANCES, CONVERT THEM INTO A LONG-TERM, 10 OR 20 YEAR BOND PAYABLE IN DOLLARS, OR SDRS, OR A BASKET OF HARD CURRENCIES, WITH THE BRITISH, OF COURSE, REQUESTED. AS THEY DID UNDER THE SO-CALLED BASLE AGREEMENTS IN THE 1960S, TO TAKE THE LOSS IN CASE THERE WERE ANY DEVALUATION OF STERLING BETWEEN NOW AND THEN. HE THOUGHT IF THAT OFFER WERE MADE, YOU MIGHT FIND PRESENT HOLDERS OF STERLING ARE NOT ALL THAT EAGER TO GET RID OF IT, BUT BY CALLING THEIR BLUFF YOU WOULD LAY TO REST ONCE AND FOR ALL THE SWORD OF DAMOCLES HANGING OVER STERLING. AND IF HE WERE DOING THIS EXERCISE, WHICH HE WAS NOT, HE WOULD LINK TOGETHER THE 3.9 BILLION IMF LOAN AND DOING SOMETHING ABOUT THE STERLING BALANCES

4. OTHER POINTS MADE BY CONGRESSMAN REUSS IN HIS BBC LIMITED OFFICIAL USE

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INTERVIEW:

(A) IN RESPONSE TO A QUESTION AS TO THE LATEST THINKING IN WASHINGTON ON BRITAIN'S IMF LOAN DEMAND, HE REITERATED HIS BELIEF THAT THE TROUBLES OF THE BRITISH ECONOMY WERE "STRUCTURAL" AND WOULD NOT BE SOLVED BY AN INTERNATIONAL AGENCY TELLING BRITAIN IT HAD TO INCREASE ITS UNEMPLOYMENT. INDEED, SUCH INCREASE IN UNEMPLOY-

MENT WOULD MAKE IT MORE DIFFICULT TO REMEDY THE
STRUCTURAL PROBLEMS. HE HOPED THAT THE CONDITIONS
IMPOSED FOR A LOAN WHICH BRITAIN VERY MUCH NEEDS AND

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC IMMEDIATE 8359

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WHICH HE WOULD DO HIS BEST TO GET FOR BRITAIN IN THE
US CONGRESS WOULD ADDRESS STRUCTURAL PROBLEMS RATHER
THAN BE VERY SEVERE CONDITIONS HAVING TO DO WITH THE
BRITISH BUDGET FOR THE YEAR AHEAD. "YOS CAN'T BRING
BRITAIN OUT OF HER SLUMP BY A GREATER SLUMP." IF H.M.
GOVERNMENT CAME UP WITH A PROGRAM OF REFORM OF THE WAY
WORK IS PERFORMED, GOVERNMENT SERVICES RENDERED, AND
OF MANAGEMENT'S OUTLOOK, HE AS AN AMERICAN WHO HAD
SOMETHING TO DO WITH THE WAY THE IMF OPERATES WOULD BE
VERY PLEASED: THIS WOULD BE THE RIGHT APPROACH. HE
WOULDN'T EXCLUDE SOMETHING ON THE BUDGET -- THERE WERE
WAYS OF SAVING MONEY AND PERHAPS INCREASING TAXES
WHICH WOULD MAKE LESS NECESSARY THE ENORMOUS BORROWING
REQUIREMENTS OF THE RECENT PAST. BUT ANY HEROIC ATWAQ
TEMPT TO DEFLATE WOULD BE DOOMED TO FAILURE AND BE
A GREAT MISTAKE. HE DIDN'T THINK THE CARTER ADMINIS-
TRATION WOULD WANT TO SEE CONDITIONS IMPOSED ON THE
UK SO SEVERE THAT THEY WOULD RENDER STRUCTURAL REFORM
IMPOSSIBLE.

(B) WHEN ASKED WHETHER ONE WOULD SEE UNILATERAL ACTION FROM THE USG TO SEE BRITAIN THROUGH ITS CURRENT PROBLEM, CONGRESSMAN REUSS SAID THIS TOOK HIM INTO AN IFFY AREA INTO WHICH HE'D BETTER NOT BE DRAWN AT THE MOMENT. HE WOULD JUST SAY THAT AMERICAN-BRITISH LIMITED OFFICIAL USE

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FRIENDSHIP WAS OF LONG STANDING AND THE U.S. WOULD NOT LIGHTLY SEE BRITAIN DISAPPEAR--AND IT WOULD NOT DISAPPEAR.

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